

National Securities Clearing Corporation

Consolidated Financial Statements
as of and for the nine months ended September 30, 2013 and the
year ended December 31, 2012

NATIONAL SECURITIES CLEARING CORPORATION

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NATIONAL SECURITIES CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF SEPTEMBER 30, 2013 AND DECEMBER 31, 2012

(In thousands)

	September 30, 2013 (unaudited)	December 31, 2012 (audited)
ASSETS		
Cash and cash equivalents	\$ 4,311,308	\$ 3,322,926
Segregated cash and securities	37,577	37,446
Investments in marketable securities	-	20,028
Accounts receivable	23,852	37,820
Notes receivable from affiliates	19,000	40,713
Clearing fund - securities, at fair value	241,315	274,856
Fixed assets - less accumulated depreciation and amortization of \$142,129 and \$131,090 at September 30, 2013 and December 31, 2012, respectively	57,509	52,226
Deferred income taxes - net	4,428	5,137
Other assets	1,468	1,490
TOTAL ASSETS	<u>\$ 4,696,457</u>	<u>\$ 3,792,642</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES:		
Accounts payable and other liabilities	\$ 17,414	\$ 27,951
Payable to participants	37,577	37,446
Long-term debt	23,342	25,055
Clearing fund:		
Cash deposits	4,140,488	3,217,587
Securities, at fair value	241,315	274,856
Total liabilities	<u>4,460,136</u>	<u>3,582,895</u>
SHAREHOLDER'S EQUITY:		
Common stock, \$.50 par value: 30,000 shares authorized, 20,000 shares issued and outstanding	10	10
Paid in capital	34,442	34,442
Retained earnings	202,336	176,036
	<u>236,788</u>	<u>210,488</u>
Accumulated other comprehensive loss		
Unrealized loss on derivative - net of tax	(467)	(741)
Total shareholder's equity	<u>236,321</u>	<u>209,747</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>\$ 4,696,457</u>	<u>\$ 3,792,642</u>

See notes to financial statements.

NATIONAL SECURITIES CLEARING CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(In thousands)

	September 30, 2013	September 30, 2012
REVENUES:		
Clearing services	\$139,584	\$128,043
Distribution and other services	79,637	71,412
Interest income	422	251
Total Revenues	<u>219,643</u>	<u>199,706</u>
EXPENSES:		
Employee compensation and related benefits	86,233	81,199
Information technology	21,927	20,769
Professional and other services	57,295	43,557
Occupancy	8,249	9,542
Other general and administrative	1,630	3,336
Total expenses	<u>175,334</u>	<u>158,403</u>
INCOME BEFORE PROVISIONS FOR INCOME TAXES	44,309	41,303
PROVISION FOR INCOME TAXES	<u>18,009</u>	<u>19,087</u>
NET INCOME	<u>26,300</u>	<u>22,216</u>
OTHER COMPREHENSIVE GAIN / (LOSS)		
Unrealized gain / (loss) on derivative - net of tax	<u>274</u>	<u>(95)</u>
COMPREHENSIVE INCOME	<u>\$ 26,574</u>	<u>\$ 22,121</u>

See notes to financial statements.

NATIONAL SECURITIES CLEARING CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(In thousands)

	September 30, 2013	September 30, 2012
REVENUES:		
Clearing services	\$46,575	\$40,757
Distribution and other services	26,802	24,349
Interest income	204	35
	<hr/>	<hr/>
Total Revenues	73,581	65,141
	<hr/>	<hr/>
EXPENSES:		
Employee compensation and related benefits	30,813	26,560
Information technology	8,115	7,092
Professional and other services	24,606	16,732
Occupancy	2,830	2,957
Other general and administrative	590	1,018
	<hr/>	<hr/>
Total expenses	66,954	54,359
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INCOME BEFORE PROVISIONS FOR INCOME TAXES	6,627	10,782
PROVISION FOR INCOME TAXES	2,301	6,298
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NET INCOME	4,326	4,484
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OTHER COMPREHENSIVE GAIN / (LOSS)		
Unrealized gain / (loss) on derivative - net of tax	12	(16)
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COMPREHENSIVE INCOME	\$ 4,338	\$ 4,468
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See notes to financial statements.

NATIONAL SECURITIES CLEARING CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012 (In thousands)

	September 30, 2013	September 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$26,300	\$22,216
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of fixed assets	11,039	10,049
Net premium amortized on U.S. Treasury securities owned	28	730
Deferred income taxes - net	709	1,700
Unrealized gain (loss) on derivatives	274	(95)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	13,968	(43,224)
Decrease in other assets	22	107
Decrease in accounts payable and other liabilities	(10,537)	(68,597)
Increase in payable to participants	131	2,543
Increase in clearing fund cash deposits	922,902	417,691
Net cash provided by operating activities	<u>964,835</u>	<u>343,120</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of investments in U.S. Treasury securities	20,000	51,000
Purchases of investments in U.S. Treasury securities	-	(26,166)
Decrease in notes receivable	21,713	2,950
Increase in segregated cash and securities	(131)	(2,536)
Purchases of fixed assets	(16,322)	(11,885)
Net cash provided by investing activities	<u>25,260</u>	<u>13,363</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payment on debt	(1,713)	(3,372)
Net cash (used in) financing activities	<u>(1,713)</u>	<u>(3,372)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	988,382	353,111
CASH AND CASH EQUIVALENTS - Beginning of period	<u>3,322,926</u>	<u>3,738,082</u>
CASH AND CASH EQUIVALENTS - End of period	<u>\$ 4,311,308</u>	<u>\$ 4,091,193</u>
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid to DTCC - net of refunds	<u>\$ 18,681</u>	<u>\$ 7,949</u>
Interest paid	<u>\$ 1,348</u>	<u>\$ 400</u>

See notes to financial statements.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2013

1. BUSINESS AND OWNERSHIP

National Securities Clearing Corporation and subsidiary (NSCC or the Company), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides various services to members of the financial community (participants), consisting principally of securities trade capture (validation and comparison), clearance, netting, settlement and risk management services.

NSCC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). Other subsidiaries of DTCC include The Depository Trust Company (DTC), Fixed Income Clearing Corporation (FICC), DTCC Deriv/SERV LLC, DTCC Solutions LLC, European Central Counterparty Limited (EuroCCP), DTCC Solutions Worldwide Limited, and Avox Limited.

The quarterly financial statements of NSCC, which have been prepared in accordance with accounting principles generally accepted in the United States of America, should be read in conjunction with the annual financial statements as of December 31, 2012.

2. CLEARING FUND

NSCC's rules require certain participants to maintain clearing fund deposits based on calculated requirements, which at September 30, 2013 totaled \$3,478,933,000. The clearing fund is available to secure participants' obligations and certain liabilities of NSCC should they occur. All clearing fund cash and securities are recorded on the balance sheet. A summary of the total deposits held at September 30, 2013, including \$902,870,000 in excess of calculated requirements, follows:

(In thousands)	September 30, 2013	December 31, 2012
Cash	\$ 4,140,488	\$ 3,217,587
U.S. Treasury and Agency securities, at market	<u>241,315</u>	<u>274,856</u>
Total Deposits	<u>\$ 4,381,803</u>	<u>\$ 3,492,443</u>

3. OTHER MATTERS

Lehman Brothers Inc. and MF Global Inc. — On September 19, 2008, a Trustee was appointed, under the Securities Investor Protection Act (SIPA), to administer and liquidate the business of Lehman Brothers Inc. (LBI). As part of the liquidation of LBI, certain of its assets were sold to Barclays Capital Inc. ("Barclays"), which assets did not, however, include the accounts that LBI maintained at NSCC, FICC, and DTC.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2013

As a result, the trustee, Barclays, and DTCC, on behalf and for the benefit of NSCC, FICC, and DTC (collectively, the “Clearing Agency Subsidiaries”) entered into an agreement that provided for the Clearing Agency Subsidiaries to wind down their respective LBI accounts, including the close out of pending transactions and the use of the proceeds in accordance with their respective rules and procedures, in the same manner in which they close out positions of participants for whom they cease to act. On September 24, 2008, the Clearing Agency Subsidiaries formally ceased to act for LBI.

In addition, Barclays agreed to guaranty, indemnify, and hold harmless DTCC, each of NSCC, FICC, and DTC, and their officers, directors, employees, owners, agents, and representatives against any and all losses, claims, damages, expenses (including legal fees), or liabilities that any of them may incur as a result of winding down and closing out the respective accounts, which guaranty is limited to a \$250,000,000 cash deposit (the “Cash Deposit”) it provided for that purpose.

Any losses will first be satisfied from the Cash Deposit. If there are losses in excess of the Cash Deposit, they will be satisfied in accordance with the rules and procedures of NSCC, FICC and DTC, respectively (including through application of LBI’s Clearing or Participant Fund deposits and any Clearing Agency cross guaranty agreements). If any portion of such funds remain after the close out of the LBI Accounts and satisfaction of all obligations of NSCC, FICC, and DTC, they will be remitted to the Trustee.

The Cash Deposit is held at DTCC to facilitate its investment pending application against losses or its turnover to the Trustee.

With respect to Lehman Brothers Inc., at September 30, 2013, DTCC and its subsidiaries held funds in the aggregate amount of \$63,978,000, including the balances of the Barclays’ Cash Deposit, Clearing and Participant Funds and matured money market instrument (MMI) accounts. As of September 30, 2013, DTCC had delivered to the Trustee of the LBI estate \$5,125,811,000 in cash and Clearing Fund securities valued at \$159,479,000, attributable to the LBI estate.

On October 31, 2011, a Trustee was appointed, under the SIPA, to administer and liquidate the business of MF Global Inc. (“MFG”). As part of the liquidation of MFG, any losses will first be satisfied in accordance with the rules and procedures of NSCC, FICC, DTC and EuroCCP, respectively (including through application of MFG’s Clearing or Participant Fund deposits and any Clearing Agency cross guaranty agreements). If any portion of such funds remains after the close out of the MFG Accounts and satisfaction of all obligations of NSCC, FICC, DTC and EuroCCP they will be remitted to the Trustee.

With respect to MF Global Inc., at September 30, 2013, DTCC and its subsidiaries held funds in the aggregate amount of \$28,992,000, including Clearing and Participant Funds and matured MMI accounts. As of September 30, 2013, DTCC had delivered to the Trustee of MFG \$237,987,000 in cash, attributable to the MF Global Inc. estate.

Management does not expect that there will be any losses attributable to the liquidation of the LBI or MFG accounts to be assessed against retained earnings or participants.